

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 OMB-01 PM-05 OES-07 SP-02 SS-15
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INRE-00 XMB-02 DOEE-00 OPIC-03 /119 W
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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC NIACT IMMEDIATE 9444

C O N F I D E N T I A L MEXICO 05886

DEPT PASS TO WHITE HOUSE (OFFICE OF PRESIDENT, OFFICE OF
VICE PRESIDENT) DEPT OF ENERGY EXIM BANK

E.O.11652:GDS

TAGS:EGEN, MX

SUBJECT:AMBASSADOR'S MEETING WITH PRESIDENT LOPEZ PORTILLO

1. LAST NIGHT I ACCOMPANIED MR. REGINOLD JONES, GE BOARD CHAIRMAN, FOR A CALL ON PRESIDENT LOPEZ PORTILLO. MR. JONES PRESENTED GE'S CASE REGARDING THE PENDING CONTRACT FOR GAS PIPELINE COMPRESSORS. THE DISCUSSION, HOWEVER, FOCUSED AS WELL ON THE BROADER ISSUE OF U.S.-MEXICAN GAS PRICE NEGOTIATIONS.
2. LOPEZ PORTILLO WAS IN A SOMBER MOOD AND SPOKE IN A SOBER TONE. THOUGH ALTOGETHER COURTEOUS AND AMENABLE, THE CONTRAST IN HIS DEMEANOR ON THIS AND OTHER OCCASIONS WAS STARK AND UNSETTLING.
3. THROUGHOUT THE COURSE OF THE CONVERSATION HE SPOKE OF THE GAS SALE IN THE PAST TENSE. HE SUGGESTED THAT HE THOUGHT MEXICO HAD BEEN VICTIMIZED BY ENTERING INTO THE LETTER OF INTENT WITH THE SIX U.S. COMPANIES. HE SAID HE
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HAD NOT BELIEVED THAT THE U.S. GOVERNMENT WOULD INTERFERE IN A COMMERCIAL TRANSACTION. HE USED A SPANISH EXPRESSION TO CONVEY THE WAY HE FELT -- NAMELY, THAT HE HAD BEEN LEFT DANGLING, THAT THE LADDER HAD BEEN PULLED OUT FROM UNDER HIM.

4. LOPEZ PORTILLO SAID THAT BECAUSE SO MUCH TIME HAD

PASSED, HE HAD FINALLY BEEN OBLIGED TO MAKE SOME DECISION AND THAT HIS DECISION WAS TO CONVERT AS MUCH OF MEXICO'S INTERNAL CONSUMPTION AS WAS POSSIBLE FROM NUMBER 6 FUEL OIL TO GAS. HE SAID THAT HE THOUGHT THIS WOULD BE EASY TO ACCOMPLISH IN MONTERREY AND ALONG THE PACIFIC COAST AS WELL. HE SAID THAT MEXICO WOULD PRODUCE NUMBER 2 FUEL OIL AND SELL IT ON THE WORLD MARKET BUT USE AS MUCH OF ITS GAS AS IT COULD IN MEXICO.

5. WHEN ASKED WHETHER IT STILL MIGHT NOT BE POSSIBLE TO CHANGE HIS MIND IF CONGRESS WERE TO TAKE ACTION ON AN ENERGY PROPOSAL, AND IF SCHLESINGER THEN APPROVED THE MEXICAN PRICE, LOPEZ PORTILLO GAVE AN AMBIGUOUS RESPONSE. THOUGH THERE WAS SOME REASON FOR HOPE, HIS COMMENTS, FOR THE MOST PART, WERE DISCOURAGING.

6. LOPEZ PORTILLO SEEMED SYMPATHETIC TO MR. JONES, WHO MADE AN EXCELLENT PRESENTATION OF THE GE CASE. JONES SAID IF GE WERE THE LOW BIDDER AND IF ITS BID WAS RESPONSIVE TO MEXICO'S NEEDS, HE VERY MUCH HOPED THEY WOULD BE AWARDED THE CONTRACT. HE NOTED THAT BECAUSE FINANCING THROUGH THE EXIM BANK WAS LINKED TO THE AGREEMENT ON A PRICE FOR GAS, THEY WERE PRESENTLY NOT ABLE TO DO BUSINESS. HE NOTED, HOWEVER, THAT ARRANGEMENTS COULD BE MADE THROUGH PRIVATE BANKS FOR FINANCING AT TERMS THAT WOULD BE FAVORABLE, WITH THE POSSIBILITY OF RE-FINANCING THROUGH EXIM AT A LATER
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DATE. LOPEZ PORTILLO SAID HE WOULD PREFER USE OF PRIVATE FINANCING TO THE USE OF EXIM BECAUSE OF BAD EXPERIENCE AND BECAUSE QUOTE HE DIDN'T WANT TO BE EMBARRASSED AGAIN UNQUOTE.

7. COMMENT: WHATEVER THE REALITIES MAY TURN OUT TO BE ABOUT THE VOLUME OF MEXICAN NATURAL GAS AND MEXICO'S ABILITY TO RESERVE A SIGNIFICANT PORTION OF IT FOR DOMESTIC USE, LAST NIGHT, FOR THE FIRST TIME, I FELT I WAS BEING EXPOSED TO THE MEASURE OF PAIN THAT LOPEZ PORTILLO FEELS PERSONALLY AS A RESULT OF THIS SITUATION, AND THAT THE VOLUME OF GAS AVAILABLE TO THE STATE OVER TIME MAY, IN FACT, BE DIMINISHED BECAUSE OF THE NEGOTIATION DELAYS.
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